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OUR IRREDEEMABLE PAPER MONEY

by Howard H. Buffett

"Of all the contrivances for cheating the laboring classes of mankind, none has been more effective than that which deludes them with paper money." -- Daniel Webster.

I

When the United States Government deliberately abandoned the gold standard in 1933, and officially repudiated its solemn pledge to redeem its bonds and paper money with gold, little notice was accorded the protests against this arbitrary action. Neither the unprecedented immorality of repudiation nor the resort to printing-press money seemed to disturb the American people.

Public faith in our money system rested on a long heritage of sound money freely redeemable in gold. But no significant immediate effect on the domestic purchasing power of the dollar took place. Clever propaganda, appealing to the patriotic instincts of the public, effectively offset or silenced the voices of those who spoke about the inflationary perils of irredeemable paper money.

Now, fifteen years have passed. The evil consequences of that dishonorable action are beginning to make themselves felt, though the cause is still not understood. The ordinary consumer has become painfully aware of a continual and relentless rise in the cost of living. The citizen interested in public affairs is beginning to voice a suspicion that neither party any longer possesses the ability and integrity genuinely to bring government spending under control. The disciple of human liberty is alarmed at both the steady expansion of bureaucracy and militarism, and the growing public enthusiasm for state intervention in all human activities. We are slowly becoming enmeshed in all the economic, political, and moral consequences that always ultimately follow the resort to irredeemable paper money.

II

Lenin is reported to have said that the surest way to destroy the capitalistic system is to debauch the currency. By expanding the money supply with irredeemable printed paper, government can steadily confiscate, secretly and unobserved, the savings of the people. This process, generally known as inflation, amounts to legalized robbery of humble and

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trusting people by the very agency (government) that supposedly protects them from spoliation.

In the United States, the unrestrained government issuance of bonds and currency since 1933 has cut in half the purchasing power of every life insurance policy, savings bank deposit, government bond, or other fixed dollar obligation. Those who have been thrifty; those who have responded to the official appeal to put their earnings into savings bonds; those who have tried to lay away a frugal nest egg for their old age; all have taken a cruel loss. Lenin was certainly prescient.

While government spending steadily dilutes the value of paper money, the resultant inflation brings a train of other evils. With taxes high and money deteriorating, shrewd people are constrained to spend their energies less on productive activity and more in shifting their capital assets into real property. Speculators who really understand inflation can always roll up immense profits.

When the great Eighteenth Century fiat money inflation in France collapsed, the crushing loss fell on the shoulders of working people who had neither the foresight nor the means to protect themselves. When the inflationary bubble burst and the outstanding paper money became entirely worthless, it was discovered that the great bulk of it was in the hands of humble folk. A similar consequence resulted during the disastrous mark inflation in Germany in the 1920's.

Governmental fraud undermines both public morale and private morals. When those in control of the destiny of the nation break its solemn pledge and gloat over that repudiation, as was done in 1933, it is a national disgrace. It is more than disgraceful when the President urges the people to "buy savings bonds to fight inflation" and money thus collected is then used to prop up high prices, as in the case of the recent government million-ton purchase of sugar. Somehow and someday the trusting people who respond with their savings to such official appeals will discover the trickery of which they are the victims.

III

The day-by-day news is giving the American public a continuous and vivid portrayal of the frightful consequences of irredeemable paper currency emissions, now usually disguised under the soothing label of "managed currency" systems.

In one country after another, since V-J Day, we have witnessed a relentless rise in prices as the confidence of the populace in paper money first slowly, then rapidly, evaporated. While the ravages of war are a primary cause of Europe's troubles, yet wherever the governments have met their financial needs with the printing press, their basic ills have deepened and recovery has been retarded.

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Despite the warning portrayed by the continuous drama of currency depreciation abroad, and inflationary developments at home, American officialdom pursues a policy that might charitably be called "watchful waiting". Instead of vigorous and courageous efforts to restore a sound money redeemable in gold -- before public uneasiness over our paper money results in a general flight from currency, bank deposits, and other dollar promises -- our supposedly responsible leaders sit with folded hands, or demand economic narcotics like price control.

In their 1948 political platforms, both major parties vigorously denounce inflation and "high prices". Each pledges itself to halt the continuing rise in the cost of living. Yet neither party even mentions the only final cure for monetary inflation -- a restoration to Americans of their right to own gold and to have paper money redeemed in gold.

It is hard to believe that the men entrusted with the financial welfare of this nation follow a pattern that runs counter to all the teachings of history. Yet the record shows that all efforts to legislate or decree monetary values by governments have ultimately failed disastrously. Why, then, should anyone believe that the present attempt to defy natural economic law can succeed?

Apologists for the American experiment in irredeemable paper money claim "our system is different". They point to the government gold stocks at Fort Knox and solemnly assert that this $23.5 billion gold hoard gives ample security and backing to our currency. What they neglect to mention is that the Fort Knox gold is not obtainable by Americans in exchange for paper dollars. Only foreign holders of dollars can step up to the American Treasury and secure gold in exchange.

Perhaps these advocates of managed currency should be reminded of the comment of Sir Isaac Newton when he was asked by British Treasury officials why the British money unit, the pound, had to be a fixed quantity of precious metal. Why did it need to be of metal at all, since paper currency was already publicly accepted? Why could not notes be issued without ever being redeemed? Newton, a mathematician, replied: "Gentlemen, in applied mathematics, you must describe your unit."

Today American paper money units, with the exception of a relatively small quantity redeemable in silver, would be difficult to describe. A $20 Federal Reserve Note carries on its face this inscription: "The United States of America will pay to the bearer on demand Twenty Dollars"; Twenty Dollars in more paper!

If those who have promoted irredeemable paper money in America believe in a government-managed economy, then it is easy to understand

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their attitude. For inconvertible printing-press money is a basic requirement of a totalitarian economy. Automatically the opportunity of the individual to earn or preserve his independence is eliminated.

IV

Despite coolness from Treasury and banking interests, several bills have been introduced in Congress to restore the gold standard. My own proposal, H. R. 5031, would provide a return to the free redemption of paper money in gold at an early date. It proposes the minting of gold coins based on the present price for gold, $35 per ounce, and the elimination of restrictions on the private ownership of gold.

Although the task of restoring honest money in America is not easy, it will never be less difficult than now. Gold is still coming into the Treasury in substantial amounts, and the ratio of our gold stocks to money in circulation is higher now than during many years prior to 1933. As after the Civil War, "the way to resume is to resume".

Admittedly, the hurdles created by the fantastic increase of money in circulation, bank deposits, and government debt cannot be lightly brushed aside. Neither can the ticklish political aspects of this problem be ignored. The end of the present inflationary boom will most surely cause unpleasant economic repercussions. Both major parties are carefully avoiding any action that might enable the opposite party to pin on them the blame for its termination.

But intelligent political understanding and action is imperative. Perhaps the answer is a bipartisan approach. Nowhere in public affairs would it be more reasonable. For all American citizens, excepting only speculators and profiteers, have a common interest in the re-establishment of sound currency. And the problem must be solved in accordance with economic principles having no allegiance to political parties.

The American heritage of an honest money redeemable in gold was not given to this generation to squander. It was entrusted to our hands as custodians. Unless restored, we shall be recorded by history as faithless both to our ancestors and our posterity. For the blessing of this land of liberty, and its unparalleled achievement, are intimately connected with the right of the individual freely to obtain gold in exchange for the fruits of his labors.

Congressman Buffett represents the Second District of Nebraska.

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Book Events

From Versailles to Potsdam, by Leonard von Muralt; translated from the German by Heinrich Hauser. Hinsdale, Illinois: The Henry Regnery Co. $2.00. Reviewed by J. M. Lalley.

Professor von Muralt, of the University of Zurich, is another of the Swiss writers who are finding the philosophic key to all the evils of our epoch in the word "disintegration"; that is, in the universal breaking down of all organic entities in the objective universe and the destruction of all hierarchies of value in the mind. It is not merely a rebellion of the parts against their wholes but also a progressive fission within the parts themselves. This notion of a self-annihilating ontology has a special attraction at this time, because of the analogies so easily to be found in the fields of natural science, medicine, psychology, art, linguistics, and of course politics. Some now perceive in it the logical consequence of the fissiparous tendencies engendered by Fifteenth Century nominalism.

Anyway, Professor von Muralt, applying the formula to history, finds in the peace treaties of 1920 documentary proofs of the disintegration of Western culture. There no longer existed either among the statesmen or peoples of Europe any general political will to which national self-interests and the rival interests of groups within the nations could be subordinated. Hence the statesmen of Versailles found themselves without any clearly understood policy or purpose. Subject as they were to so many contrary pressures, they were obliged to ignore the main problem confronting them; namely, that of restoring an equilibrium of power under which peace would be possible. What resulted, therefore, was not a peace but a plan to continue the war by economic and political rather than by military means. At the same time the victors had deprived themselves of the means of enforcing it, first by permitting Germany to survive as a Sovereign Power and then by excluding her from the system they sought to construct. The statesmen of Versailles, were unwilling to recognize that any such system must include either Germany or Soviet Russia; thus in their blindness they earned for themselves the enmity of both. Worse than that, they made it possible for Germany to regain the balance of power between East and West and thereby to resume under the clear-sighted Stresemann, the role of "honest broker" it had enjoyed under Bismarck; so that presently the Western statesmen were obliged to seek by negotiation what they had, in the intoxication of their victory, been unwilling to consider. The work of Versailles was undone at Locarno, but not before it had planted the seeds of another war.

By neglecting to forestall the possibility of a Russo-German alliance the Allied statesmen repeated the blunder of Napoleon which was to be repeated after them by Adolph Hitler. But even had the conferees been capable of as clear a vision on this point as were Metternich and Castlereagh, it would have availed nothing in view of the passions and prejudices among the electorates to which they were responsible, and the ambitions of powerful military and economic interests. As it was, the statesmen had surrounded themselves with so many experts in so many fields that none could see the problem whole. Clemenceaux was determined upon the restoration of the French hegemony as it had existed in the days of Louis XIV; Lloyd George, torn between the desire to eliminate Germany as a trade rival and the necessity of neutralizing Soviet Russia; Orlando, determined upon collecting to the letter all the grandiose promises contained in the Treaty of London. Wilson, who alone could transcend narrow nationalistic interests, was intoxicated by a formula that took no account of ethnographic or political realities. The inevitable result was a peace not of compromises but of contradictions.

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the rulers of the world committed a grave initial blunder. Since it was an inevitable blunder, I call it a misfortune. Yet Paris, in any circumstances, is too self-conscious, too insistent, to constitute a favorable site for a Congress of Peace. . . . 'We were hampered', records Dr. Charles Seymour in that admirable compilation, The Intimate Papers of Colonel House. 'We were hampered by the atmosphere of Paris, where German guilt was assumed as a proved fact. Everyone was afraid of being called pro-German.' Subconsciously the shell-shock of Paris affected the nerves of all the delegates. 'Paris', records Mr. Keynes, 'was a nightmare and everyone was morbid.' . . . We felt like surgeons operating in the ballroom with the aunts of the patient gathering all around." Mr. Nicolson records that Woodrow Wilson rejected Geneva. Obviously, the Swiss city would have been infinitely better. And it would suit the UN admirably today. For Geneva is quiet, dull and very, very neutral.

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Note on Bureaucracy. There are other ways of killing the goose of productivity than a deliberately vicious policy of dismantling. Socialist Britain, for instance, needs domestic production of foodstuffs. Some figures from the Monthly Digest of Statistics, published by His Majesty's Stationery Office (July, 1948), offer an instructive lesson. According to the planning philosophy guiding the British Government, more planners are necessary in Whitehall offices to increase production. Whatever else the Socialist regime has done it has certainly increased the paper-shufflers. Back in the backward days of free enterprise on April 1, 1939, there were 2,600 employees in the Ministry of Agriculture and Fisheries. Under Socialism this figure has risen to almost double that of 1939; today it amounts to 7,100. But did this bureaucratic fecundity result in a cornucopia in the fields? In June, 1939, the total acreage of crops and grass was 31,679,000. In June, 1947, this acreage had dropped to 31,022,000, a decrease of about 650,000 acres. Nor did doubling the employees double the wheat yield. In 1939, 1,645,000 tons were harvested; in 1947, the harvest had risen to 1,667,000 tons, or only a little over one per cent.

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The Swiss paid their respects to the dismantling policy on August 16, when Berne radio broadcast a news commentary, significantly in English, beamed to North America: "the work of dismantling goes on and the capacity of production of German industry continues to decrease. The monetary reform did not create property or goods. In order to have these, it is necessary to have raw materials, tools and machinery which are in a good condition, and workers who are both healthy and satisfied. None of these conditions has been fulfilled and to this must be added the dismantling of factories and shops and the lack of transport facilities, while the Reichsbahn is suffering from a deficiency in its rolling stock, amounting to several hundred thousand trucks. The works which are indispensable for the construction of railway material are being dismantled. In this business the activity has an effect which is doubly negative for it destroys machinery and it paralyzes manpower.

"It has been estimated that in order to dismantle the Thyssen works in Duisburg-Hamborn it will be necessary to employ 5,000 men during six or seven years. It is not very difficult to imagine how much they could produce if they were used for the purpose of running the works instead of destroying them. . . . But what is far more dangerous even than this, is that the contradictory actions of the Allies tend toward dismantling of democracy in Germany. The fact that the price spiral has once more been put into motion, together with a stagnation in production, has as a result, an ever-growing dissatisfaction on the part of the German masses -- that dissatisfaction threatens to veer around not towards the Left, but towards the extreme Right, that is to say, towards nationalism."

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said to long for retirement to his farm in Maryland, far from Hearings and forensic battles. He is a literary critic -- Senior Editor on Time -- and has nothing to gain from the publicity about this political affair. Friends say that, for his own personal interests, he would have done better to have remained silent. Meanwhile, there is the matter of perjury action -- a threat to him as well as others. It seems that "liberals" who profess to view the proceedings from detached altitudes might well show some understanding for Mr. Whittaker's position.

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An event on July 15 has attracted much less attention than it deserved. It certainly should be "news" when a major trade-union calls for repeal of the Wagner Act. That is what the United Mine Workers Journal advocated on that date. As the conclusion of an editorial, replete with denunciations of the Taft-Hartley Act, the Journal urged candidate Dewey to call for repeal of the Taft-Hartley Act which, said the Journal, "of necessity means that the Wagner Act, which the NAM-Taft-Hartley Act amends would go by the boards. We believe that the country would welcome this forthright proposal." CIO leaders have assailed the idea, but there has not been much comment from AFL sources. The Journal may calculate that Dewey could obtain AFL as well as UMW support, if he should adopt the proposal.

Labor observers in the Capital have engaged in much speculation about the UMW idea. Its nature of course is consonant with Mr. John L. Lewis' well-known objections to Government controls. Also, it is pointed out that many unions including the UMW derive little benefit from the Wagner Act, while they suffer no little trouble from the Taft-Hartley Act. Whether or not the notion will obtain favorable public reaction from other unions remains to be seen. A decade ago, the newly adopted Wagner Act offered unionism protection against the opposition of employers. Since that time, however, many Labor leaders, not the least Mr. Lewis, have come to recognize that Government protection has involved dangers to unionism. And employers, while also antipathetic to Government protection of Labor, have become much more reconciled to the institution of trade-unionism. Those who have studied the evolution of trade-unionism in America believe the Journal's editorial marks a new stage in the development of union-employer relations.

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The other day the Arabs, wiser in vicissitude, proposed that the seat of the UN be moved to Geneva. The Arab spokesmen pointed out that New York, with a large Jewish population was no place to consider impartially the Palestine problem. Apart from this, there is much to be said for taking the site of international debate and conference away from such a metropolitan maelstrom as New York. That city is an execrable spot for any such business as the UN professes to carry on.

The very physical atmosphere is too excitable for any deliberative assembly. Phlegmatic Britons become irritable, temperamental Latins impossible and Slavs insupportable stubborn. The polyglot character of New York, accentuated by today's tendency to assert racial differences, exacerbates the discussion of international disputes. A city which produces such a phenomenon as PM deserves no $65 million skyscraper dedicated to amity among nations, not to mention races. The pro-Soviet sentiment of the city at the time when UN first moved in tended to obscure the real international situation. Another Kasenkina case and New York may turn just as hysterically anti-Soviet.

Selection of a city for an international organization or conference is an old and trying problem. Harold Nicolson in his book Peace-Making commented on the choice of Paris for the conference of 1919: "In choosing that shell-shocked capital

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